

# EXHIBIT 11

# Digital Video Recorders: Adoption & Impact

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# Agenda

## DVR: Adoption and Impact

- Background, Purpose & Method
- Key Findings
- Implications & Conclusions

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# Assessing DVR Impact: *The problem with existing research*

- TiVo-centric
- Early Adopters
- Individual behavior
- The Why to the What



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# Assessing DVR Impact: An Ethnographic Approach

- Cable & TiVo
- Average Consumers
- Whole House



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# ABC/ESPN Study Purpose

- Monitor non-early adopter households as they become accustomed to DVR technology
- Examine behaviors within the context of the household over a six month period
- Understand DVRs impact on TV viewing practices
- Observe the realities of DVR in relation to their pre-DVR TV viewing practices and attitudes

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# ABC/ESPN Study Design

- The study was conducted for from February – August 2004 under supervision of Horowitz Associates
- Households were recruited from current cable subscribers in NY/NJ area to receive cable DVR or TiVo
- An ethnographic methodology was used

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# Ethnography Methodology

- **Anthropological**
  - 8 Multicultural Ethnographers:
  - Ph.D. in Sociology or Anthropology
- **Participant-observation employed to understand dimensions of participant's behavior**
  - Reveal tacit cultural knowledge not obtained in surveys
  - Most natural and unmediated view of TV/Viewer relationship
  - Nearly 1000 hours of observation
- **In-home visits were recorded by ethnographers in field notes, voice recordings and videotape**

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# Sample Size

Recruited		Completed
Cable DVR	117	50
TiVo	40	17
Total	157	67



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# Key Findings



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# Acceptance and Rejection

- No significant age or technology bias
  - Main driver is importance of TV
- Installation difficulties limited acceptance
  - Bad experience with installer
  - Device conflict with furnishings; hi-end equipment
  - TiVo phone line; self-installation
- Ultimately, cost is a barrier
  - For average consumer, TV costs are already high

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# Consumption

- Over half of households do not believe they watch more TV
  - The DVR has not increased the time that remains in the day
  - Improved “viewing efficiency” – more programs in less time
- About a third of households feel they watch **more** hours of TV
  - Watching many new shows consistently
  - TV became more interesting so they set aside more time to watch
- Greatest impact is not more TV viewing, but getting more out of TV viewing time and enjoying TV more

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# DVR Usage: Six Distinct Approaches

## Almost Real-Time / Short-Time Delay

- Purposely record a program to start it late, only to catch up to "live" by fast-forwarding through breaks
- Describes a minority of viewers, some fitting the "early adopter" profile
- Motivation is not always to skip ads

## Same Day, Different Time Shifting

- Record programs as they initially air and make certain to view them the same day
  - Typically those who recorded by VCR, these viewers are not around when program is aired due to conflicts
  - "Need" to see it before winners/losers are revealed, want to view before the next installment, or addicts
- Soaps, Talk, Reality*

## Weekend Warrior

- Use their weekends as a time to catch up on a weekly series
  - Viewers attracted to semi-high profile shows with less "water-cooler" buzz
  - Not concerned with same day viewing because they are under less pressure to be "in the know"
  - Intent on viewing before the next installment
- Primetime Dramas*

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# DVR Usage: Six Distinct Approaches

## Marathoning

- Gather and save large quantities of favorites and watch them in blocks, on weekends or free days
  - Generally entails fast-forwarding through breaks, and even entire segments
  - “Second string” favorites they like but lack the time to watch regularly
- Daytime Talk, Syndicated, Cooking*

## Stockpiling

- Record favorites but do not view for long periods of time, if ever
  - “Back-pocket” entertainment for themselves or other family members
  - Insurance that they “can watch whatever, whenever, as often as they want”
- Movies, Children’s, Syndicated*

## The Traveler’s Approach

- Program to save piles of specific favorites to view upon returning from travel
- Distinct approaches to “catching up”
- ✓ Chip away at stored episodes of a series
- ✓ Watch only recorded programs until they have caught up

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# When do viewers prefer live TV?

**Many prefer live to recorded in certain cases**

- CHANNEL SURFERS

*"I flip, I get frustrated. So now, rather than channel up or down, I put in the channel number... TiVo makes flipping too difficult – it is too slow."*

- LIVE IS THE "PURE" WAY OF WATCHING

*"Even with the DVR it's my instinct to let the show run if the phone rings. When I get back, I'll decide whether or not to rewind...I'm not gonna pause it... You can always catch up. It's like cheating time, almost."*

- NEWS JUNKIES AND SPORTS FANS

*"Sports are supposed to be watched live. I watch so many shows about sports... that it would be nearly impossible to avoid finding out who won the game."*

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# Commercial Avoidance & Viewing

- **Several reasons for skipping commercials**
  - Time management, relevance or lack thereof
  - *“Now I only watch the commercials that I want to watch.”*
  - A genuine dislike for ad content and frequency
- **Some become more aware of ads**
  - “Fast-Forwarders” are more attentive than before, particularly first/last pod position

*“I don’t think that the commercials are getting harmed by fast forwarding...It’s like driving. When you drive you don’t stop to read the billboards, but you see them.”*

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# Commercial Avoidance & Viewing

- *A third of participants say they do not skip ads*

*“Sometimes it’s too much work to fast forward. You have to pay close attention to when the commercials end to stop fast forwarding. I just let it play.”*

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# Network/Program Loyalty & Awareness

- The DVR strengthens program loyalty and network awareness
- Viewers become more program oriented:  
*"With the DVR, I never miss an episode of Law & Order...even the reruns."*
- Network loyalty grows with program loyalty
  - As viewers become more engaged in shows, their reliance on favorite networks is strengthened
  - Controlled sampling improves – no time constraints

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# Household Dynamics

- **Resolving Conflict**
  - Families are watching TV together more often and are spending more time together in the room with the DVR than they had in the past
  - Viewers can record and return to a program at any time, so families are more willing to give up the remote and negotiate programs for group viewing
- **Creating Conflict**
  - TiVo's inability to record more than one program while simultaneously viewing another program
  - Youth are finding inappropriate programs their parents would not like them to watch at odd hours

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# Implications for TV Industry: What is Known and Future Speculation



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# Near-Term Implications

- Some viewers will not embrace DVRs
  - Many homes gave back the DVR even though it was free due to technical or other issues
  - Cost is a significant issue
  - Conflict with HDTV
- A single DVR may be enough for most homes, therefore not all the TVs in a home will have a DVR
- All DVR usage is not alike: TiVo and cable DVRs differ and so does the viewer experience
  - Program search functionality,
  - Recording 2 shows at once



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# Near-Term Implications

- Commercial skipping is NOT the primary impetus for DVRs
  - Time management is the driving force
  - 30% say they never avoid commercials
  - Over half the viewers say they avoid commercials *when time-shifting*
- Programs that are viewed *live* have lower commercial skipping
  - Little observed buffering (near live time-shifting) occurring

***Viewers will pay attention to commercials that they find appealing and relevant***

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# Future Speculation

*DVR penetration will be hampered initially, but will eventually approach appliance status among TV viewing homes:*

- Passionate TV watchers are passionate about DVR
- Technology and cost efficiency will improve
- DVR / HDTV conflict will fade
- Gen Y will demand this device

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# Future Speculation

***Good, relevant programming and branding will be even more powerful in a DVR environment :***

- Loyalty and controlled sampling likely to increase
- Strong TV brands can get stronger
- Audiences are qualified, more clearly defined
- TV becomes more relevant and random access
  - *Like Magazines?*

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# Future Speculation

***The :30 spot is not dead – even among DVR users:***

- Commercial avoidance, not the main impetus
- TV viewing behavior/enjoyment still quite passive
- “Live” TV still considered the norm
- Attentiveness improves with program loyalty
- Fast-Forwarders more aware than before
- Net Effective commercial exposure may increase
- Many people actually LIKE commercials!

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# Future Speculation

***For programmers, more than commercial avoidance, competition will be the issue:***

- Least objectionable becomes most appealing
- Choice becomes almost endless
- Audiences will become even more fragmented

Programmers and advertisers alike must offer compelling and relevant content.

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